La Plata County Regional Housing Authority: Summary of Needs Study And Five-Year Action Plan

Part 1: Summary of Needs Study

Problems of Crisis Proportions

It comes as no surprise that housing in La Plata County is expensive. However, when housing supply and demand were examined in detail, what we found was a housing problem of crisis proportions:

- o Almost no new homes in La Plata County, other than mobile homes, are affordable to households with incomes below 125% of median income about \$75,000 a year.
- o The median home price has increased 104% over five years—to \$325,000—while median incomes have increased only 20%.
- Very few family-sized homes in decent condition are available for less than \$275,000. This price category represented 85% of the home sales market in 2000 but only about 35% today.
 Percentage of Homes Sold at Prices of \$275,000
- Very few new homes are being built at prices below \$275,000, which is where the need is.
- Affordable rental housing is very scarce for renters with incomes under 50% of median income—about \$30,000 a year.
- o 3,500 families—nearly one in five families—pay over 35% of their incomes for housing.

Validation of Existing Policies

A detailed RHA needs study—summarized here-validates and adds urgency to existing

policies of local government to promote the construction and preservation of "affordable" and "attainable" housing, as the following table illustrates.

♣85% \$32% 76% \$62% \$35% \$35% 2000 2001 2002 2003 2004 2005 2006

and Below to La Plata County "Local" Buyers

SOURCE: Author's analysis of data from Donna Graves, Information Services

"Affordable" and "Attainable" Housing Policies

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|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-----------------------------|--|--|
| | Attainable | Affordable | | |
| Category is defined by: | Needs for new homes | Needs for homes and rental | | |
| | priced below market | units priced even lower, | | |
| | (under \$275,000) | and eligibility for federal | | |
| | | housing funds | | |
| Priced for income group | 81% to 125% | At or below 80% | | |
| (what the policies say): | Of the area median income | of the area median income | | |
| | | | | |
| Maximum income and | \$74,250 income | \$47,500 income | | |
| home price, family of 4 | \$254,000 home price | \$140,000 home price | | |
| (calculated for this study): | - | - | | |
| Maximum income and | \$47,500 income | \$38,000 income | | |
| home price, family of 2: | \$200,000 | \$120,000 | | |

The study indicates that RHA and local governments should additionally enact policies to provide more affordable rentals and homeownership opportunities for families with incomes below 50% of area median income (about \$30,000 a year for a family of four). Federal programs are available for affordable rentals, and Habitat for Humanity currently provides homeownership programs. However, these programs are not maximized because La Plata County land costs are so high. (RHA's action plan in Part 2 of this report addresses this land cost problem in several ways.) Likewise, some local organizations would like to provide special transitional housing for families and individuals who are homeless, disabled or have other special needs—but again, high land and construction costs have been a barrier even though federal and private funding programs are available.

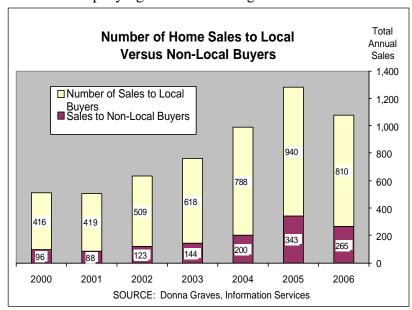
Root Causes: Strong Demand and Land Costs

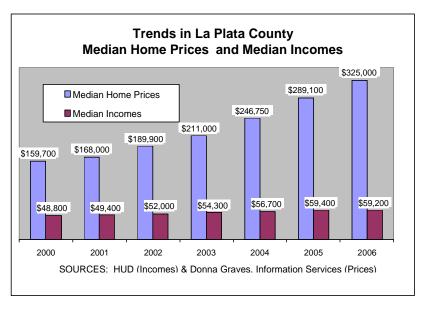
One root cause of the problem is strongly increased demand over the past six years for homes from inside and outside the community, as illustrated in the accompanying chart. Increasing demand like this in a

relatively small, isolated market increases both land and construction costs. High land costs are the major factor because they are much more sensitive to demand pressures.

As a result the prices of "retail" single-family lots located near the highest concentrations of employment and services—the Durango area—now generally start at \$100,000. Larger tracts of residential land in Durango routinely sell for as much as \$1,000,000 an acre, which exceeds the cost in other resort- and vacation-oriented communities in the Four Corners region and rivals the land prices in some upscale ski resort areas.

Even builders who buy land in larger tracts now pay between \$20,000 and \$80,000 per home for land for homes sized between 1,000 and 2,000 square feet, according to a survey of lower-priced home developments, completed for RHA in January 2007 by Werner Heiber. These figures do not include infrastructure or other site improvement costs, which ranged from \$6,000 to \$50,000 for those same sized homes. As one might expect, land costs for condos and townhouses were much lower compared to





detached homes because more homes can be built per acre. And land costs were substantially lower in Bayfield, where builders reported paying \$25,000 to \$50,000 per acre.

As for average per-square-foot building construction costs, exclusive of land and site work, these ranged from \$93 for a Bayfield modular home, up to \$134 for site-built single-family homes in Bayfield, \$130 for a townhouse development in Durango and \$354 for a condo-commercial mixed use development in Durango. In La Plata County, lower-cost construction methods like modular building have not been fully employed, but according to RHA's study can save as much as \$30,000 to \$50,000 in the construction of a 1,300 square foot detached home. Savings from modular construction are, however, less or nonexistent with townhouses or condos—so this technology is less applicable to where the demand is greatest for new affordable/attainable homes—in Durango where high land costs make it prohibitive to build detached homes.

High costs are not limited to the new home market. Decent existing homes in good condition, particularly those located near the services and jobs in the Durango area, are nearly as expensive as comparable new homes, according to our analysis of recent home sales. Following the differences in land prices throughout the county, sale prices are considerably lower in Bayfield and Ignacio than in other areas, as the accompanying chart indicates.

| Median Home Prices in 2006 (New and Existing Home Sales) | | | | | |
|-------------------------------------------------------------|-----------|--|--|--|--|
| Bayfield Area | \$273,000 | | | | |
| Durango Area | \$345,200 | | | | |
| Ignacio Area | \$173,600 | | | | |
| Unincorporated County | \$330,000 | | | | |
| All La Plata County \$325,000 | | | | | |

Affordable rental housing is also scarce—with rents averaging \$784 in Durango¹ and a very low vacancy rate of 3%, which indicates a tight market. This average rent requires an income of \$31,000 to be affordable, assuming 30% of a family's income is available to pay rent.

Related Concerns: Limiting Sprawl and Preserving Resources

During RHA's strategic planning process, many community members and officials expressed concern about unmanaged growth, the threat of "losing our community" and becoming another Aspen or Telluride. Concerned citizens and public officials see sprawling residential development around the county as a related problem. As for solutions, those who had opinions supported more well-designed annexations and more compact development near where the jobs and services are located. This was seen as a way of preserving open spaces as well as reducing commuter traffic. Community members and officials also strongly supported encouraging builders to "go green" – meaning adoption of new building methods and materials to increase energy efficiency, reduce water use, and improve indoor air quality.

Green and smart growth standards naturally merge when design efforts get underway for completely new neighborhoods. Both smart growth and green design principles encourage siting of services and schools near housing, creating walkable neighborhoods, and making road and walking connections between adjacent neighborhoods. Both reject the development of any environmentally sensitive land. Both encourage the use of quality design guidelines for single-family, multifamily, and commercial building construction.

¹ Most statistics in this report are as of the end of 2006. The average rent amount just increased slightly to \$801 and the vacancy rate to 4%, which indicates a marginal easing of the rental market, most likely due to competition from the strong forsale home market.

What Can Be Done?

RHA's Five-Year Action Plan (see Part 2) outlines a number of bold, concrete, and workable steps for addressing these serious community problems. Below is the reasoning behind the Action Plan:

1. Land development costs can be reduced.

Other communities achieve this by employing one or more of the following techniques:

- Local government/RHA funding or sponsorship of land developments with requirements for certain percentages of affordable/attainable homes in exchange for added entitlements.
- Discounting the cost of public land or providing low-cost financing for it.
- The public sector providing infrastructure to open new, appropriate areas for development.
- Using profits from market-rate housing to enable discounts on affordable/attainable homes.

2. Homebuyers who are priced out of the market can get "gap" financing.

- Low-cost second mortgages can compensate for the difference between what homebuyers can afford and current home prices (sometimes called down payment assistance).
- This works best when combined with credit counseling and homebuyer training.

3. Local governments can require and incentivize builders to provide some below-market homes.

- The City of Durango, La Plata County and Ignacio are already doing this.
- More results can be obtained if local governments formalize and standardize Fair Share programs, and if RHA provides financial incentives through a special affordable/attainable housing fund.

4. Real solutions require large amounts of below-market financing.

In order for the communities of La Plata County to increase the amount of affordable/attainable homes, there are critical needs for the following:

- Early-stage low-cost financing for land acquisition and site planning for developments (of its own or others) with substantial portions of affordable/attainable homes.
- Financial assistance and lower cost land for developers of affordable rental housing to help the community maximize use of existing federal funding programs. Regrettably, federal funding programs are not maximized in La Plata County because high land costs make some projects unfeasible, because the federal subsidies are insufficient. Added funding can solve this problem.
- Capital to provide mortgage assistance to homebuyers priced out of the market.

An increasing number of communities around the country have created various types of housing funds to address these kinds of capital needs for affordable/attainable housing.

Strategies That Follow from the Needs Study

To summarize, the RHA needs study found a housing crisis that is currently affecting a large segment of our community. Specifically, most families earning up to 125% of AMI (\$75,000) need some form of assistance to have access to housing in this high cost market. Part 2 of this report describes RHA's five-point action plan for 2007-2011 which aims to create significant new opportunities for these families over the next five years. These strategies include increasing the number of homes and rentals in the market, establishing a significant housing trust fund for down payment assistance, decreasing land and infrastructure costs for for-profit and nonprofit developers—as well as continuing to strengthen of smart growth and green building policies to assure that new affordable/attainable homes are well designed and built, located in the right places, and thereby help preserve La Plata County's communities, natural resources and quality of life.

Part 2: Five-Year Action Plan

Overview

The Regional Housing Authority's Action Plan for 2007-2011 has five components:

- 1. Fair Share Programs
- 2. La Plata Homes Fund
- 3. Land Banking and Development
- 4. Homebuyer Assistance
- 5. RHA's Policy Agenda

Following is the status of each program and RHA's key action items. If all these programs are fully supported and funded, RHA estimates that it can help communities in La Plata County create at least 500 new affordable housing opportunities over five years. See details on RHA's targets in Attachment A. Action items considered but not included in the plan are described in Attachment B.

1. Fair Share Programs

Current Status:

- The City of Durango and La Plata County have nine active agreements with developers that require certain percentages of affordable/attainable homes.
- RHA administers and monitors these existing Fair Share agreements.
- See Attachment C for target home prices and income eligibility schedules developed by RHA as part of the strategic planning process.

Action Items:

- Help the City of Durango and the County to consider and, if directed, draft new ordinances formalizing and standardizing similar Fair Share ordinances.
- Administer these new programs, if directed to do so by Durango and the County.

2. La Plata Homes Fund

Current Status:

- RHA is establishing this Fund for payments received from developers with Fair Share agreements.
- RHA will receive an estimated \$500,000 in 2007. Other in-lieu payments will trickle in as smaller, less predictable amounts over the next few years.

RHA Action Items:

- Raise a total of \$10 million to effectively capitalize this fund.
- Earmark \$8 million for second mortgage assistance for potential homebuyers who are priced out of the market.
- Earmark \$2 million for RHA's land banking and development program.

Following are sources of capital that RHA is willing to pursue in concert with local governments, in addition to in-lieu fees from developers.

- A dedicated local sales tax or levies of property taxes.
- Local government general revenues.

- Proceeds from the sale of land donated or discounted to RHA.
- Grants from corporations and foundations.

3. RHA Land Banking and Development

Current Status:

- RHA's first donation comprises 6 acres from the Tamarron development.
- Three Springs is offering RHA acreage for one or more affordable rental developments as part of its affordable/attainable housing agreement with the City of Durango.
- Affordable, attainable and mixed-income land developments are seen as a key strategy for RHA.

RHA Action Items:

- Seek additional land donations and bargain sales.
- If the La Plata Homes Fund is capitalized, buy strategic parcels or help developers finance them in exchange for pledges of affordable/attainable homes.
- Preserve existing affordable rental housing by assisting with buyouts by nonprofits, refinancings, and renovation financing.
- Assist local nonprofit and volunteer organizations in creating new transitional housing for homeless families, disabled individuals and other people with special needs.

4. Homebuyer Assistance Program

Current Status:

- RHA is implementing a full-scale countywide homebuyer assistance program to provide potential homebuyers with counseling, training and affordable financing.
- The program will prepare buyers for the home purchase process, mortgage applications, and home maintenance responsibilities.
- Second mortgages will be provided to fill the gaps between what families can afford and the lowest-cost homes available.

RHA Action Items:

- Offer at least four homebuyer classes in La Plata County in 2007 and at least 16 in subsequent years.
- Offer counseling services to at least 25 potential homebuyers in 2007 and 100 in subsequent years.
- Provide financial assistance to 10 potential homebuyers in 2007; 25 in 2008 and subsequent years.
- Obtain at least \$250,000 in federal funding for down payment assistance in 2007.
- Obtain more mortgage assistance via La Plata Homes Fund.
- Help local lenders offer more affordable and low-down-payment mortgage products.

5. RHA Policy Agenda

As a result of its strategic planning process and in order to implement its Action Plan, RHA has developed the following policy agenda for consideration by its member local governments.

<u>Enact Fair Share Programs</u>: Formalize and standardize policies requiring developers of new housing to provide certain percentages of affordable/attainable homes in exchange for increased entitlements and fee waivers.

<u>Capitalize the La Plata Homes Fund</u>: Raise \$10 million in capital for this fund, using it for mortgage assistance to make home purchases affordable, and for development of affordable/attainable homes.

<u>Encourage Annexations and Provide Infrastructure</u>: Local governments should take a proactive stance in encouraging well-conceived annexations and providing some infrastructure to them in order to:

- Relieve shortages of residential land that is buildable near jobs and services.
- Make homes more affordable, encourage compact development and discourage sprawl.

<u>Encourage Green Home Designs:</u> Local governments should encourage, or require developers to encourage, resource conservation and healthy indoor environments. For example, local governments and RHA could encourage developers to adopt the Green Communities Criteria or LEED standards for green building.

Adopt Smart Growth Principles: Local governments should continually refine and improve land use policies to discourage sprawl and to protect rural and environmentally sensitive land. This requires:

- More annexations.
- Encouragement of compact, higher-density development near jobs and services.
- Thoughtful designs of new residential developments, allowing these areas to be walkable and well connected to surrounding neighborhoods .

<u>Apply Multi-Family Design Guidelines:</u> Areas where development is more intense benefit from design guidelines. Durango has guidelines for commercial space and single-family homes but not multi-family housing.

<u>Preserve Existing Affordable Housing:</u> RHA, local governments and the private sector should work together to preserve existing affordable housing such as mobile home parks, affordable/attainable market-rate rental units, and federally subsidized apartments with expiring rent restrictions.

Attachment A: RHA Targets 2007-2011

Affordable/Attainable Targets In Numbers of Homes and Rental Units (Reserved for families up to 125% area median income)

| RHA Activities | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------------|------|------|------|------|------|
| RHA assisted or sponsored land | | 25 | 25 | 30 | 30 |
| developments – homes for sale | | | | | |
| RHA assisted or sponsored land | | | 50 | 50 | 50 |
| developments – rental units | | | | | |
| Fair Share housing | 63 | 15 | 30 | 30 | 30 |
| programs/ordinances | | | | | |
| RHA mortgage assistance program | 10 | 25 | 20 | 50 | 50 |
| Remove duplicates – mortgage | (2) | (25) | (20) | (15) | (15) |
| assistance in assisted developments | | | | | |
| Targets for Families Assisted | 71 | 40 | 105 | 160 | 160 |

Total: 536

Attachment B:

Policies and Programs Considered But Not Included in the Action Plan

The following policies and programs were considered during RHA's strategic planning process as parts of a "menu of opportunities," but were not incorporated for reasons explained below.

Linkage Program

A linkage program is essentially an impact fee on new commercial development dedicated for use in providing affordable/attainable housing. This could potentially be a source of funds for RHA's proposed La Plata Homes Fund. However, the concept was rejected by the RHA Board for these reasons:

- Concern on the part of RHA's Board that commercial properties are already taxed much more heavily than residential properties.
- RHA staff's view that more dramatic and quicker results will be obtained by the City and County if they focus on adopting more uniform and workable "Fair Share" (inclusionary) policies regarding new residential developments.

Density Bonuses

Some suburban local governments effectively offer density bonuses on the order of 10% to 30% over base zoning as a voluntary incentive for developers to provide certain percentages of affordable/attainable housing. This is not recommended for two reasons:

- RHA proposes a mandatory ordinance in which the incentives to developers will be fee waivers and increased (but negotiated) entitlements, with higher densities being only one of several possible entitlements.
- Unlike some suburban jurisdictions, areas subject to annexation and rezoning do not have uniform and well-defined by-right densities, upon which a standard bonus density can be applied.

Expedited Public Approvals

Expedited processing of land use approvals is sometimes considered as a possible incentive to encourage developers to provide affordable housing. However, few if any communities have actually put this into practice because, in reality, most if not all approval steps cannot be skipped. Moreover, it is difficult to give a lower processing priority to other development proposals. Nonetheless, some communities have sped up and simplified approval processes for all types of development—primarily by improving the quality of development proposal submissions and paying attention to constantly improving skills of land use planners, engineers and plan reviewers.

Transfer of Development Rights

Transfer of development rights is a sometimes mentioned but little-practiced technique for financing affordable/attainable housing. It has had limited applications in a few large cities where affordable housing projects do not use all their development entitlements (e.g. density or intensity of using a particular site) and are allowed to sell these rights (e.g. transfer a density allowance) to another site. This appears to have no practical application in Durango or La Plata County at this time unless local governments want to grant "extra" density entitlements to affordable/attainable housing developers that could be traded for cash to other developers.

Reduced Subdivision and Building Requirements for Affordable Housing

Across the nation, a few communities have considered allowing exemptions from building and zoning codes to make it possible to build affordable housing less expensively. These proposals usually devolve to considering waivers of requirements for road curbs, gutters, sidewalks, street lighting and the like. In all cases known to RHA, the governing bodies and/or community members rejected this approach for fear of creating subdivisions that would be stigmatized and considered "substandard." Likewise, most local attempts at reducing construction costs by "streamlining" codes have failed for the same reasons.

Housing Land Trusts

Land trusts are often promoted as a premier mechanism to "make housing affordable," but these claims do not stand up to scrutiny. Housing land trusts are, in essence, housing developments in which the lots are leased from a nonprofit land trust for nominal sums. The lease is used as a device to reduce the monthly cost of housing—which can be accomplished by a number of other mechanisms. But more importantly the leases are written so that they substantially reduce the amount of equity appreciation gained by the residents upon sale of the homes—keeping the resale prices of the homes much lower than they otherwise would have been. However, a land trust does nothing to make the homes affordable in the first place; this requires donations of land, in-kind subsidies of infrastructure, or cash subsidies. RHA believes that reducing land costs is a very important strategy, but that it can better be accomplished through more flexible and market-friendly means. RHA believes there is a place for land trusts—for example, when a donor requires severe resale restrictions or a public agency can more easily lease than sell land. But there can often be serious problems with this approach—for example, when land leases are used to control resale prices on a minority of homes in a predominantly market-rate residential development, it can stigmatize those homes as second-class housing. The goals of maintaining long-term affordability can be accomplished through other mechanisms such as deed restrictions or shared appreciation liens.

Attachment C: RHA Pricing Schedule and Income Limits for Affordable/Attainable Homes

Maximum Home Prices

| | Income Limits As a % of Area Median Income | Studio Price | 1-2 BR Price | 3 BR Price | 4 BR Price |
|----------------------|--------------------------------------------------------|-----------------|-----------------|---------------|------------|
| Level 1 (affordable) | 65-80% | \$103,120 | \$119,888 | \$139,324 | \$164,370 |
| Level 2 (attainable) | 81-95% | \$120,724 | \$140,221 | \$179,897 | \$211,546 |
| Level 3 (attainable) | 96-115% | \$147,490 | \$170,527 | \$217,946 | \$255,596 |
| Level 4 (attainable) | 116-125% | \$172,689 | \$199,428 | \$254,012 | \$297,488 |

Income Limits

| | % Median Income | Studio Income | 1-2 BR Income | 3 BR Income | 4 BR Income |
|---------|--------------------|---------------|------------------|-------------|-------------|
| Level 1 | 65-80% | \$33,250 | \$38,000 | \$47,500 | \$55,100 |
| Level 2 | 81-95% | \$35,568 | \$40,613 | \$50,787 | \$58,910 |
| Level 3 | 96-115% | \$43,680 | \$49,875 | \$62,370 | \$72,345 |
| Level 4 | 116-125% | \$52,000 | \$59,375 | \$74,250 | \$86,125 |

Note Regarding Rent Guidelines: No guidelines are included for affordable rentals because we presume these will be built only with federal subsidies that have their own income and pricing guidelines—generally targeted to families with incomes at or below 50% or 60% of area median income (about \$30,000 to \$36,000 annual income for a family of four).